

# **PUBLIC DISCLOSURE**

**April 8, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**South Central Bank and Trust Company  
19536**

**555 West Roosevelt Road  
Chicago, Illinois 60607**

**Federal Deposit Insurance Corporation  
Division of Compliance and Consumer Affairs  
500 West Monroe, Suite 3300  
Chicago, Illinois 60661**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **South Central Bank and Trust Company** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 8, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated Outstanding.

South Central Bank and Trust Company's lending performance is commendable. The level of lending has increased substantially over the past three years and a commendable level of community development loans has been originated. A majority of the loans are located within the assessment area and lending to individuals of different income levels is strong. The geographic distribution of loans reflects a good dispersion to census tracts of different income levels. Finally, no Community Reinvestment Act complaints have been filed against the bank since the prior evaluation and no evidence of discriminatory practices were identified.

## DESCRIPTION OF INSTITUTION

South Central Bank and Trust Company is a wholly owned subsidiary of First Business Bancorp Company, Chicago, Illinois. The main office is located in the South Loop area of Chicago, Illinois. Two branches are operated. One branch is located in the Bridgeport neighborhood and the second branch is located in the Chinatown community. Each office has a deposit-taking automated teller machine (ATM).

As of December 31, 1998, South Central Bank and Trust Company had \$68,467,000 in gross loans and \$112,293,000 in total assets. The primary business focus is residential real estate home improvement loans. South Central Bank and Trust Company is the largest Federal Home Administration (FHA) Title-1 Home Improvement Loan lender in the Midwest. At 66 percent, HMDA reportable residential real estate loans represent the largest percentage of gross loans, most of which are home improvement loans. There are no legal or financial impediments to prohibit the bank from meeting the community's credit needs.

Table 1 details the composition of the loan portfolio as of December 31, 1998.

**TABLE 1. COMPOSITION OF THE LOAN PORTFOLIO AS OF DECEMBER 31,1998**

Loan Type	Dollar Volume \$(000's)	Percentage
Commercial Real Estate	10,215	15%
Commercial	5,657	8%
HMDA-Reportable Residential Real Estate	45,087	66%
Home Equity Loans	4,929	7%
Consumer	2,523	4%
Other	56	<1%
TOTAL	\$68,467	100%

## DESCRIPTION OF *Cook County*

CRA requires that financial institutions define an assessment area within which lending efforts will be concentrated. This provides a context for the Federal Deposit Insurance Corporation to evaluate performance under CRA. A broad range of demographic, economic, and community specific information about the assessment area is considered during the evaluation. CRA requires that the assessment area (1) consist of whole geographies, (2) not arbitrarily exclude low- or moderate-income census tracts, and (3) not exceed metropolitan statistical area (MSA) boundaries. The assessment area meets these requirements.

The defined assessment area consists of the ***1,352 census tracts that constitute Cook County, Illinois***. All are part of the Chicago Metropolitan Statistical Area (MSA). The assessment area is mostly urban. The distribution of geographies includes 295 low-income census tracts (22 percent), 340 moderate-income (25 percent), 481 middle-income (36 percent), and 236 upper-income (17 percent).

According to 1990 United States Census information, the assessment area has a population of 5,105,067 individuals and 1,256,554 families. Unless otherwise stipulated, the demographic information reported in this evaluation is based upon 1990 Census data and the median family income comparisons are based on HUD-adjusted median family income of the Chicago MSA. For 1998, the median family income was \$59,500.

Approximately 35 percent of the assessment area's workforce are employed in the service industry. Most of these businesses have less than 50 employees. Manufacturing and retail trade are the second and third largest industries. Together these two industries employ 34 percent of the workforce. Most of the businesses in these two categories also have less than 50 employees.

The census tracts surrounding the main office are primarily low-income. These tracts have a high daytime population, a very low nighttime population, a limited number of housing units, and almost no owner-occupied housing. Several Chicago Housing Authority complexes are located west of the main office. Northeast of the main office is the Loop, which is Chicago's business district. This area also has a high daytime population, which is drawn from suburban commuters employed in the numerous businesses within the Loop. The branch located in the Chinatown community is also a low-income area. The Bridgeport branch is located in a moderate-income geography. Both of these areas are primarily residential.

Overall, the economic conditions of the assessment area are slightly lower than the Chicago MSA. Table 2 compares demographics of the assessment area to the entire Chicago MSA.

**TABLE 2. DEMOGRAPHIC & ECONOMIC CHARACTERISTICS OF THE  
ASSESSMENT AREA AND THE CHICAGO METROPOLITAN STATISTICAL AREA**

Category	Assessment Area	Chicago MSA
Total Population	5,105,067	7,410,858
Percentage of Families by Income Level:		
Low-Income	24%	20%
Moderate-Income	19%	17%
Middle-Income	23%	24%
Upper-Income	34%	39%
Families Below the Poverty Level	11%	9%
Unemployment Rate	8%	7%
Median Housing Value	\$100,872	\$108,960
Percentage of Total Housing Units:		
1-4 Family	65%	70%
Multi-Family	33%	29%
Other	2%	1%
Gross Rent Median	\$478	\$492
Housing Units:		
Owner-Occupied Housing Units	52%	57%
Rental Housing Units	41%	37%
Vacant Housing Units	7%	6%
Renters w/costs >30% of Income	41%	39%

Based on 1990 United State Census Data

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Community Reinvestment Act performance was evaluated based on: (1) the number and dollar amount of loans originated within the assessment area; (2) the geographic distribution of loans within the assessment area; (3) the income levels of the borrowers; (4) the overall level of loan origination activity; and (5) response to consumer complaints.

### SAMPLING PROCEDURES

To evaluate lending performance, the loan product category with the largest number and dollar volume of originations was reviewed. In 1998, 90 percent of loan originations were residential real estate loans reportable under the Home Mortgage Disclosure Act (HMDA). HMDA reportable loans include credits for home purchase, home improvement, and home mortgage refinance. For 1998, 86 percent of HMDA originations were home improvement loans. All loan originations reported on the 1998 HMDA Loan Application Register were reviewed for this evaluation. This sample is reflective of the overall lending patterns since the last evaluation.

### LENDING IN THE ASSESSMENT AREA

The aforementioned sample of loans is used to estimate the overall percentage of loans originated within the assessment area by dollar and number. The loans within the assessment area are then used for additional analysis.

Lending within the assessment area is adequate. A majority of credit originations (61 percent by number of loans and 59 percent by dollar amount) are within the assessment area. Table 3 depicts the volume of loans originated within the assessment area.

**TABLE 3. LOANS IN THE ASSESSMENT AREA**

Type of Loan	Total Loans Reviewed		Loans Within Assessment Area			
	Number	\$(000)	Number	%	\$(000)	%
1998 HMDA-Reportable Residential Real Estate	2,147	\$46,962	1,303	61%	\$27,679	59%



## GEOGRAPHIC DISTRIBUTION OF LOANS

This section evaluates the distribution of credit among geographies of various income levels. The overall geographic distribution of loans is more than reasonable considering the demographics, lending opportunities, available housing, and competition within the community.

Table 4 details the geographic distribution of loans. The chart compares the number and dollar amount of loans to the number of owner-occupied housing units within each census tract income category. Since lending is concentrated in home improvement loans, the percentage of owner-occupied housing units is used as a measure. This premise considers that in order to originate a home improvement loan, the borrower must first own a residence.

**TABLE 4. DISTRIBUTION OF HMDA-REPORTABLE RESIDENTIAL REAL ESTATE LOANS BY CENSUS TRACT INCOME LEVEL**

Tract Income Level	Owner-Occupied Housing Units in the Assessment Area		Number of Loans		Dollar Amount of Loans	
	#	%	#	%	\$(000)	%
Low	45,095	4%	146	11%	3,440	12%
Moderate	179,051	17%	418	32%	7,536	27%
Middle	525,231	51%	588	45%	11,550	42%
Upper	293,416	28%	151	12%	5,153	19%
Totals	1,042,793	100%	1,303	100%	\$27,679	100%

Lending performance within low-income census tracts is strong. As Table 4 illustrates, the percentage of loans in low-income census tracts (11 percent by number of loans) is higher than the percentage of owner occupied housing units in this category. Within just the low-income census tract category, 83 percent of the housing stock are rental units and non-owner occupied. This increases the difficulty of originating home improvement loans in these tracts. Moreover, the average age of the housing stock in these census tracts is 54 years (compared to 43 years for the entire assessment area). The older housing stock increases the potential or need for home improvement loans. South Central Bank's performance in low-tracts indicates a willingness to meet this need.

Compared to the number of owner occupied housing units, performance in moderate-income census tracts (32 percent by number of loans) is also good. Within just the moderate-income census tract category, non-owner occupied housing units represent 63 percent of the housing stock and the average age of the housing stock is 40 years. The level of lending in moderate-income census tracts is also favorable considering the housing composition of these tracts.

Loans are generally scattered throughout Cook County with the highest concentration of loans originated in an area south of the main office. The area stretches from Interstate 55 to the north,

103<sup>rd</sup> Street to the south, Pulaski Street to the west, and Lake Michigan to the east. This area covers 306 census tracts and includes the geographies where the two branches are located. This geography covers approximately 23 percent of the census tracts in the assessment area. Within this area, 443 loans were originated which represent 34 percent of total originations. This area has a high concentration of low- and moderate-income census tracts, 31 percent and 32 percent, respectively. Within just these 306 tracts, 22% of loans are in low-income census tracts and 31% of loans are in moderate-income tracts. Lending performance in this smaller geographic area is reasonable.

Within the immediate vicinity of the main office there is little opportunity for lending. No loans were originated in the low-income census tract where the main office is located or in the adjacent low-income tracts. This results from the composition of this area. The two geographies north and south of the main office have no owner-occupied housing stock and a total population of only 18 families (all living below the poverty level). To the east and west of the main office there is little housing stock, which also limits lending opportunities. West of the main office is the University of Illinois at Chicago and east is the Metra commuter train lines as well as the Chicago River.

## **LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS**

Lending to borrowers of different income levels is strong. Loan originations are evaluated based on the income level of the borrower and compared to the composition of families within the assessment area.

Although lending performance is somewhat lower than the percentage of low-income families within the assessment area, it should be noted that nearly one-half of the low-income families live below poverty. Additionally, as previously noted, lending is concentrated in home improvement loans and many low-income families are not homeowners and would not have a need for a home improvement loan. Thus, when families living below poverty are factored into the analysis, the percentage of loans to low-income families exceeds the percentage of those families presumed capable of acquiring a loan. Lending to moderate-income families is slightly higher than the assessment area's family composition.

Table 5 details the distribution of lending among borrowers of different income levels. As the table illustrates, South Central Bank and Trust Company demonstrates a willingness to originate loans to low-and moderate-income borrowers.

**TABLE 5. DISTRIBUTION OF HMDA-REPORTABLE RESIDENTIAL  
REAL ESTATE LOANS BY BORROWER INCOME LEVEL**

Income Level by Families (Using 1998 Median Family Income of \$59,500)	Assessment Area Families	HMDA-Reportable Residential Real Estate Loan Originations			
	%	#	%	\$(000)	%
Low (<\$29,750)	24%	190	15%	1,856	7%
Moderate (\$29,750-\$47,599)	19%	327	25%	4,412	15%
Middle (\$47,600-\$71,399)	23%	409	31%	7,938	29%
Upper (>\$71,400)	34%	377	29%	13,473	49%
Applicant income not available					
Totals	100%	1,303	100%	\$27,679	100 %

## COMMUNITY DEVELOPMENT LOANS

In addition to the loans evaluated in the previous sections of this analysis, community development loans originated since the last Community Reinvestment Act evaluation were reviewed. A community development loan provides: (1) affordable housing (including multi-family housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing small businesses or small farms; and (4) activities that revitalize or stabilize low- or moderate-income neighborhoods.

Based on the opportunities available within the assessment area and resources available to it, South Central Bank and Trust has made a commendable level of community development loans. Table 6 summarizes the community development loans originated since the 1996 CRA evaluation. The nine loans listed in Table 6, as “All Other Loans” are located in Empowerment or Enterprise Zones. The U.S. Department of Housing and Urban Development (HUD) has designated empowerment and Empowerment Zones to revitalize distressed neighborhoods. Businesses located within Empowerment Zones are eligible for special federal tax incentives. All nine loans are considered to promote economic development and/or stabilize and revitalize these communities.

**Table 6 - Qualified Community Development Lending Activity**

Loan Description	Number of Loans	Dollar Amount of Loans \$(000)
Multi-Family Affordable Housing Loans	1	\$91
All Other Loans	9	\$1,542
Grand Total	10	\$1,633

*Source: Bank Records*

## **LOAN-TO-DEPOSIT RATIO**

The loan-to-deposit ratio is used to measure the level of lending. This ratio has increased substantially from 53 percent at the last CRA Public Evaluation to 73 percent at this evaluation. During this period, net loans have increased 71 percent from \$39,698,000 to \$67,933,000. Total deposits have increased 25 percent for the same time period. The average loan-to-deposit ratio, based on 12 quarters since the last evaluation, is approximately 64 percent. Additionally, \$11,752,845 of FHA and conventional loans were sold to the secondary market and are not reflected in the loan-to-deposit ratio. The number of loans originated has also increased significantly. In 1996, 1,304 loans were originated, while in 1998 the number of origination's almost doubled to 2,398. Lending trends are positive and reflect responsiveness to the assessment area credit needs.

The competition in the assessment area is strong. Competition includes branches of several large regional banks as well as locally owned and managed institutions. There were no similarly situated banks in the area with similar asset size and loan composition with which to compare the loan-to-deposit ratio.

## **RESPONSE TO COMPLAINTS**

No Community Reinvestment Act related complaints have been received since the last evaluation.

## **COMPLIANCE WITH ANTI-DISCRIMINATORY LAWS AND REGULATIONS**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.

## GLOSSARY

**Census tracts** are small subdivisions of metropolitan or other relatively densely populated counties. They usually have between 2,500 and 8,000 persons and their physical size varies depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Market** is the activity of all HMDA reporters in a particular assessment area less lender activity.

**Family** includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption.

**Median** divides a set of values into two equal parts, one-half above and one-half below the median.

**Median Family Income** divides the income distribution of families into two equal parts, one having incomes above the median and the other having incomes below the median. Median family income is then used to derive four income categories (low-, moderate-, middle-, and upper income). These income categories are defined as:

*Low-income:* Individuals and geographies having a median family income less than 50 percent of the area median income.

*Moderate-income:* Individuals and geographies having a median family income of at least 50 percent and less than 80 percent of the area median income.

*Middle-income:* Individuals and geographies with a median family income of at least 80 percent and less than 120 percent of the area median.

*Upper-income:* Individuals and geographies with a median family income of 120 percent or more of the area median income.

**Metropolitan Statistical Area (MSA)** is a metropolitan area with economic and social ties.